



## **DEPARTMENT OF THE TREASURY**

### **OFFICE OF PUBLIC AFFAIRS**

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### **TREASURY AND IRS PROPOSE NEW TAX FORM FOR CORPORATE TAX RETURNS**

In an effort to increase the transparency of corporate tax return filings, today the Treasury Department and Internal Revenue Service released a new proposed draft form, Schedule M-3, Net Income (Loss) Reconciliation for Corporations with Total Assets of \$10 Million or More, for use by certain corporate taxpayers filing Form 1120, U.S. Corporation Income Tax Return. The new Schedule M-3 would expand the current Schedule M-1, which has not been updated in several decades.

Schedule M-1 reconciles a corporation's financial accounting income or loss with the taxable income or loss reported on the Form 1120. Large and Midsize Business (LMSB) taxpayers (those with total assets of \$10 million or more) will complete the new Schedule M-3 in lieu of completing Schedule M-1. Small Business and Self-Employed (SB/SE) taxpayers will not be required to complete the new Schedule M-3 and will continue to complete Schedule M-1. Other federal tax returns that also require the completion of Schedule M-1 (e.g., Form 1065, U.S. Partnership Return of Income, and Form 1120S, U.S. Income Tax Return for an S Corporation) may incorporate Schedule M-3 in the future.

"The proposed Schedule M-3 will make differences between financial accounting net income and taxable income more transparent. This will help agents determine from the return whether the return should be audited and identify the differences that matter most in the audit of the return. We see benefits to taxpayers and the IRS from the new Schedule: a reduction in unnecessary audits and a swifter focus on those differences that are more likely to arise when taxpayers take aggressive positions or engage in aggressive transactions. In addition, the increased transparency will have a deterrent effect," stated Treasury Assistant Secretary for Tax Policy Pam Olson.

"The new Schedule will let the IRS sharpen and improve monitoring of corporate compliance," said IRS Commissioner Mark W. Everson. "Our objective is to identify and resolve potential audit issues promptly. This information will help us do so."

“These changes will enable us to focus our compliance resources on returns and issues that need to be examined and avoid those that do not,” said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. “Increasing the transparency of corporate tax returns is critical to our objectives to provide certainty to taxpayers sooner and to improve overall compliance.”

The Treasury and IRS expect that the proposed Schedule M-3 will be finalized for use with federal income tax returns for tax years ending on or after December 31, 2004.

The draft Schedule M-3, along with a general description of Schedule M-3, is attached and may be accessed on [www.irs.gov](http://www.irs.gov). Instructions for Schedule M-3 will be released in the future and will be available on [www.irs.gov](http://www.irs.gov).

Comments are requested regarding proposed Schedule M-3, including comments on ways to minimize taxpayer burden. In addition, comments are requested on significant difficulties that taxpayers may encounter if the use of Schedule M-3 is required for a tax year that begins before Schedule M-3 is finalized. Comments should be submitted by April 30, 2004 to:

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**ATTACHMENTS:**

Draft Schedule M-3  
Schedule M-3 General Explanation